

Message Text

CONFIDENTIAL

PAGE 01 VALLET 01051 01 OF 03 250843Z

ACTION INR-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 NSAE-00 DODE-00

PM-05 NSC-05 SP-02 SS-15 OMB-01 TRSE-00 EB-08

AID-05 /064 W

-----046981 250911Z /11

R 250811Z APR 78

FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 8133

C O N F I D E N T I A L SECTION 01 OF 03 VALLETTA 01051

E.O. 11652: GDS

TAGS: ECON, EAID, PINT, MT

SUBJECT: POST COMMENTS ON INR STUDY "MALTA'S ECONOMIC

- PROSPECTS"

REF: (A) VALLETTA 0435, (B) 77 VALLETTA 1398

1. SUMMARY: POST SUBSTANTIALLY AGREES WITH CONCLUSIONS REACHED BY INR STUDY "MALTA'S ECONOMIC PROSPECTS" THAT MALTA CAN ADJUST WITHOUT SERIOUS DIFFICULTIES TO THE FOREIGN EXCHANGE AND BUDGET REVENUE IMPACTS OF THE CLOSURE OF THE NATO BASE IN MARCH, 1979. WE BELIEVE THE STUDY OVERESTIMATES THE SERIOUSNESS OF MALTA'S LIKELY UNEMPLOYMENT SITUATION IN THE POST-1979 PERIOD. THE STUDY SHOULD INCLUDE THE CAVEAT THAT THE FOREGOING CONCLUSIONS ARE BASED ON THE ASSUMPTION THAT THE WORLD ECONOMY WILL REMAIN BASICALLY HEALTHY, A CRUCIAL ASSUMPTION GIVEN THE HIGH DEGREE OF "OPENNESS" OF THE MALTESE ECONOMY. FROM A POLICY STANDPOINT THE STUDY SHOULD HIGHLIGHT TO A GREATER EXTENT THE PROBABLE ADVERSE ECONOMIC CONSEQUENCES OF CONTINUED BUDGET SUBSIDIES, I.E., ENABLING THE GOVERNMENT TO AVOID TAKING APPROPRIATE STEPS TO ENCOURAGE PRIVATE FOREIGN AND LOCAL

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 VALLET 01051 01 OF 03 250843Z

INVESTMENT, THE ONLY SENSIBLE, LONG-TERM APPROACH TO HEALTHY EXPANSION OF MALTA'S ECONOMY. WE SUGGEST THAT THE STUDY BE UPDATED TO TAKE OUR COMMENTS AND CY 1977 DATA INTO ACCOUNT, AND THEN MADE AVAILABLE TO THOSE POSTS THAT RECEIVED THE EMBASSY'S BUDGET CABLE (REF A). THIS UPDATING SHOULD BE COMPLETED NO LATER THAN MID MAY. END SUMMARY.

2. CY 1977 DEVELOPMENTS: THE MALTESE ECONOMY CONTINUED ITS STRONG PERFORMANCE IN CY 1977, WITH GROSS DOMESTIC PRODUCT GROWING AT A REAL RATE OF 9 PCT, EXPORTS OF GOODS AND SERVICES INCREASING BY 21 PCT, AND TOTAL EXTERNAL RESERVES INCREASING BY 31.8 MILLION MALTA POUNDS (MMP) TO 318 MMP, EQUIVALENT TO MORE THAN 15 MONTHS WORTH OF IMPORTS. MALTA'S 1977 BALANCE ON CURRENT ACCOUNT WAS 19.3 MMP (\$48 M APPROXIMATELY). WHILE MALTA'S TRADE DEFICIT WIDENED IN 1977 (FROM 82.5 MMP IN 1976 TO 95.9 MMP IN 1977), THIS SHOULD NOT BE A CAUSE FOR UNDUE CONCERN. MALTA MUST IMPORT CAPITAL AND SEMIFINISHED INDUSTRIAL GOODS IF IT IS TO CONTINUE EXPANDING ITS INVESTMENTS AS WELL AS ITS EXPORTS. IMPORTS OF THESE GOODS ACCOUNTED FOR OVER HALF OF THE INCREASE IN IMPORTS IN 1977. THE PROPORTION OF RETAINED IMPORTS COVERED BY DOMESTIC EXPORTS CONTINUED TO INCREASE, RISING FROM 49.3 PCT IN 1976 TO 52.1 PCT IN 1977. BECAUSE OF THIS RATE OF ECONOMIC GROWTH, THE DIRECT AND INDIRECT ECONOMIC CONTRIBUTION OF THE MILITARY BASE HAS CONTINUED TO DECLINE SHARPLY IN RELATION TO THE ECONOMY AS A WHOLE.

3. BALANCE OF PAYMENTS IMPACT: THE EMBASSY AGREES THAT THE BALANCE OF PAYMENTS ASPECT OF THE ADJUSTMENT TO THE BASE CLOSURE SHOULD NOT BE DIFFICULT. MALTA MAY EVEN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 VALLET 01051 01 OF 03 250843Z

TINUE TO REGISTER CURRENT ACCOUNT SURPLUSES AND WILL ALMOST CERTAINLY EXPERIENCE BALANCE OF PAYMENTS SURPLUSES DURING THE NEXT FEW YEARS. WE SEE 1978 AS ANOTHER RECORD-BREAKING YEAR FOR TOURISM, WITH NET FOREIGN EXCHANGE RECEIPTS AGAIN INCREASING SUBSTANTIALLY. MALTESE EXPORTS SHOULD CONTINUE TO GROW, ALTHOUGH PERHAPS NOT AS DRAMATICALLY AS IN PAST YEARS. MALTA'S USE AS A "HOUSING BASE" FOR THE OIL AND RELATED INDUSTRIES WILL BE AN INCREASINGLY IMPORTANT SOURCE OF NET FOREIGN EXCHANGE INFLOWS. (SEE 78 VALLETTA A-6). THESE INFLOWS ARE ALREADY CONTRIBUTING TOWARD OFFSETTING THE DECLINES IN LOCAL EXPENDITURES ARISING FROM THE BRITISH MILITARY PRESENCE.

4. REVENUE IMPLICATIONS: THE PERCENTAGE OF TOTAL MALTA GOVERNMENT REVENUES FROM THE BASE RENTAL PAYMENTS WILL DECLINE FURTHER IN THE CURRENT FISCAL YEAR. (THE INDIRECT CONTRIBUTION OF THE MILITARY BASE PRESENCE TO GOVERNMENT REVENUES IS RELATIVELY MINOR.) AS THE STUDY POINTS OUT, REVENUES FROM OTHER SOURCES ARE INCREASING, ALTHOUGH RETURNS TO THE TREASURY FROM CENTRAL BANK PROFITS DROPPED BY ABOUT 40 PCT IN CY 1977, A SIGNIFICANT DECLINE APPARENTLY RELATED TO LOWER INTERNATIONAL MONEY

MARKET INTEREST RATES. THE GOM COULD PURSUE VARIOUS COURSES OF ACTION TO ASSIST IN THE TRANSITIONAL PERIOD FOLLOWING THE TERMINATION OF THE BASE RENTAL PAYMENT. AS WE POINTED OUT (REF A), THE CURRENT TAX BURDEN ON MALTA IS RELATIVELY MODEST; THERE IS THUS SOME SCOPE FOR INCREASING TAXES. REDUCTION IN CERTAIN TYPES OF EXPENDITURES, OR RESTRAINT IN INCREASING FURTHER GOVERNMENT WAGES OR SOCIAL BENEFITS, COULD ALSO BE PART OF A PROGRAM OF ADJUSTMENT TO THE LOSS OF THE BASE RENTAL PAYMENTS. DEFICIT FINANCING WOULD ALSO BE AN ALTERNATIVE BUT THE GOM WILL ALMOST CERTAINLY NOT BORROW FROM THE INTERNATIONAL MONEY MARKET ON COMMERCIAL TERMS. THE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 VALLET 01051 02 OF 03 250857Z
ACTION INR-10

INFO OCT-01 EUR-12 ISO-00 PM-05 NSC-05 SP-02 SS-15

CIAE-00 NSAE-00 DODE-00 OMB-01 TRSE-00 EB-08

AID-05 /064 W

-----047050 250912Z /10

R 250811Z APR 78

FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 8134

C O N F I D E N T I A L SECTION 02 OF 03 VALLETTA 01051

GOVERNMENT WILL PROBABLY BE RELUCTANT, ON POLITICAL GROUNDS, TO PURSUE ANY OF THESE POLICIES WHICH ACCOUNTS IN PART FOR ITS DEMANDS FOR ECONOMIC SUPPORT FROM ABROAD.

5. EMPLOYMENT EFFECTS: THE "EMPLOYMENT" SECTION OF THE INR STUDY CONTAINS CERTAIN DEFICIENCIES. ACCORDING TO THE NOVEMBER, 1977, MANPOWER SURVEY, THE BASE EMPLOYED SOME 2,600 MALTESE DIRECTLY (2.2 PCT OF THE 1977 LABOR FORCE). BRITISH SOURCES REPORT THAT APPROXIMATELY ONE HALF OF THESE EMPLOYEES WILL BE ELIGIBLE FOR PENSIONS WHEN THEIR EMPLOYMENT IS TERMINATED. ANOTHER ONE QUARTER CURRENTLY ARE IN JOBS, SUCH AS FIREFIGHTING, AIR TRAFFIC CONTROL, ETC., WHICH THE GOM WILL HAVE TO TAKE OVER. THEREFORE, THE GOM WILL "NEED" TO FIND JOBS FOR ONLY SOME 600-700 EMPLOYEES OF THE BASE. WE HAVE NO RELIABLE FIGURES ON MALTESE EMPLOYED "INDIRECTLY" BY THE BASE, BUT, AS HAS BEEN MENTIONED, THE GROWING IMPORTANCE OF

MALTA AS A "HOUSING BASE", AS WELL AS OTHER GROWTH AREAS IN THE ECONOMY, SHOULD PROVIDE FOR SUBSTANTIAL EMPLOYMENT OPPORTUNITIES FOR THESE MALTESE.

6. WE AGREE THAT THE GOM IS EXAGGERATING THE EXTENT OF THE UNEMPLOYMENT PROBLEM. IN THIS CONNECTION WE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 VALLET 01051 02 OF 03 250857Z

REFER TO OUR COMMENTS ON THE EARLIER CIA STUDY (REF B, PARA 5) AND OUR RECENT MEMCON REPORTING THE VIEWS OF THE SENIOR CIVIL SERVANT IN THE MALTESE MINISTRY OF LABOR. THE GOM, AT THE POLITICAL LEVEL, OBVIOUSLY HAS MADE SEVERAL HIGHLY UNREALISTIC ASSUMPTIONS IN PROJECTING ITS JOB "NEEDS", MOST LIKELY TO STRENGTHEN ITS CASE FOR EXTERNAL ECONOMIC ASSISTANCE. ALTHOUGH SOME INCREASE IN UNEMPLOYMENT AMONG MALTESE MAY OCCUR, IT WILL NOT BE AN ECONOMIC OR SOCIAL CALAMITY.

7. BASIC CONCLUSIONS: WE AGREE WITH THE STUDY'S CENTRAL CONCLUSIONS THAT THERE IS NO ECONOMIC JUSTIFICATION FOR THE BUDGET SUPPORT ASSISTANCE THAT THE GOM IS SEEKING AND THAT RECEIVING SUCH ASSISTANCE COULD BE HARMFUL TO THE LONGER TERM DEVELOPMENT PROSPECTS OF THE MALTESE ECONOMY AS WELL AS DIFFICULT FOR THE GOM TO ABSORB. IN RECENT YEARS, THE NATO BASE RENTAL PAYMENT, FLOWING DIRECTLY INTO THE GOM TREASURY WITH NO CONDITIONS ON ITS USE, HAS AFFORDED THE GOM THE "LUXURY" OF BEING ABLE TO SUPPORT POLITICALLY POPULAR BUT ECONOMICALLY QUESTIONABLE PROGRAMS, SUCH AS THE JOB CORPS, RATHER THAN MAKE THE POLITICALLY MORE DIFFICULT DECISIONS TO ESTABLISH A FIRM BASIS FOR MALTA'S LONGER TERM ECONOMIC GROWTH. SPECIFICALLY, MALTA'S NEED FOR ENTREPRENEURIAL AND INTERNATIONAL MARKETING SKILLS CAN BEST (AND PERHAPS IN THE SHORT RUN, ONLY) BE MET BY ATTRACTING PRIVATE FOREIGN INVESTMENT. FOREIGN GOVERNMENT AID IS NOT LIKELY TO FILL THIS NEED AND MAY ONLY DELAY THE ADOPTION BY THE GOM OF APPROPRIATE POLICIES TOWARD THE PRIVATE SECTOR AND ENABLE THE GOM TO CONTINUE ITS CURRENT "SOLUTIONS" OF JOB CORPS EMPLOYMENT AND PUBLIC INVESTMENT IN ECONOMICALLY UNVIALE PARASTATAL INDUSTRIES. WE ALSO AGREE THAT THE GOM IN THE PAST HAS HAD DIFFICULTY
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 VALLET 01051 02 OF 03 250857Z

IN SPENDING FUNDS PROVIDED BY FOREIGN DONORS.

8. POLICY IMPLICATIONS: THE POLICY IMPLICATIONS OF

THIS ANALYSIS FOR THE US ARE CLEAR--THERE IS NO ECONOMIC JUSTIFICATION FOR FOREIGN AID IN THE FORM OF BUDGET SUPPORT, AND EVEN PROJECT LENDING SHOULD BE CAREFULLY EXAMINED AND PROBABLY NOT PROVIDED, UNLESS THERE ARE POLITICALLY-GROUNDED REASONS TO SUPPORT IT. WITH RESPECT TO THE US POSTURE TOWARD ECONOMIC ASSISTANCE BY OUR EUROPEAN ALLIES TO MALTA, WE SHOULD NOT ACTIVELY ATTEMPT TO INFLUENCE THEIR VIEWS. WE HAVE CONSISTENTLY SAID TO THEM THAT MALTA IS THEIR PROBLEM. MOREOVER, ANY DECISIONS THEY TAKE WILL NEED TO BE PREDICATED PRIMARILY ON POLITICAL, RATHER THAN ECONOMIC, CONSIDERATIONS. IF THEY SEEK OUR ADVICE, HOWEVER, WE SHOULD CONVEY OUR OWN VIEWS AS TO THE LACK OF ECONOMIC RATIONALE FOR BUDGET SUPPORT BUT BE LESS NEGATIVE ON PROJECT LENDING, RECOGNIZING, HOWEVER, THAT EVEN PROJECT LENDING CAN HAVE THE SAME END RESULT AS DIRECT BUDGET SUPPORT IF THE PROJECTS FINANCED WOULD OTHERWISE HAVE BEEN FINANCED BY THE GOM. WE SHOULD EXPRESS NO RESERVATIONS REGARDING TECHNICAL ASSISTANCE.

9. CLARIFICATIONS AND SUGGESTIONS: THE POST WOULD APPRECIATE RECEIVING CLARIFICATION ON A NUMBER OF STATEMENTS MADE IN THE STUDY. IN SOME CASES WE BELIEVE THAT THE STUDY COULD BE STRENGTHENED BY PROVIDING MORE SUPPORTING EVIDENCE FOR CERTAIN ASSERTIONS.

A.) P. II OF SUMMARY. WHAT IS MEANT BY "FOREIGN ASSISTANCE" IN THE LAST SENTENCE OF THE SUMMARY? IF IT INCLUDES THE BASE RENTAL PAYMENTS WE DO NOT BELIEVE ASSISTANCE AT "PRESENT LEVELS" NEEDS TO BE CONTINUED AFTER MARCH, 1979. MALTA CAN MANAGE WITH LESS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 VALLET 01051 03 OF 03 250904Z
ACTION INR-10

INFO OCT-01 EUR-12 ISO-00 PM-05 NSC-05 SP-02 SS-15
CIAE-00 INR-10 NSAE-00 DODE-00 TRSE-00 EB-08
AID-05 OMB-01 /064 W
-----047082 250913Z /23

R 250811Z APR 78
FM AMEMBASSY VALLETTA
TO SECSTATE WASHDC 8135

C O N F I D E N T I A L SECTION 03 OF 03 VALLETTA 01051

C.) P. 2-3 THE STATEMENT ABOUT MALTA'S INTERNATIONAL COMPETITIVENESS IS TOO BROAD AND BY NO MEANS A CERTAINTY. MALTA FACES STIFF COMPETITION FROM CERTAIN OTHER COUNTRIES (E.G. IRELAND) AND NEEDS TO DO MORE TO INCREASE ITS ATTRACTIVENESS TO FOREIGN INVESTORS.

D.) P. 4 THE EMBASSY IS UNAWARE OF AN ADDITIONAL TRADE PROTOCOL BEING NEGOTIATED WITH THE EC.

E.) P. 5-6 GIVEN THE GOM'S TENDENCY REGULARLY TO UNDERESTIMATE BUDGET REVENUES AND OVERESTIMATE BUDGET EXPENDITURES, ANALYSIS OF THE GOM BUDGET ON A YEAR-TO-YEAR BASIS CAN BE MISLEADING. FY 1975-76 HAS BEEN THE ONLY YEAR IN WHICH THE GOM HAS ACTUALLY RUN A BUDGET DEFICIT DURING THE PAST SEVERAL YEARS. REVENUE IN THAT YEAR
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 VALLET 01051 03 OF 03 250904Z

(88.3 MMP) MINUS THE FOREIGN LOANS UTILIZED (6.7 MMP) WAS 13.5 MMP LESS THAN TOTAL EXPENDITURES OF 95.1 MMP. IN CONTRAST, THE GOM RAN A BUDGET SURPLUS OF 4.7 MMP IN FY 1976-77 AND AN ESTIMATED SURPLUS OF 2.0 MMP IN FY 1977-78.

F.) P. 8 THE STATEMENT ABOUT SOFT LOANS IS QUESTIONABLE. AS WE HAVE REPORTED, MALTA'S PRINCIPAL EFFORT TO OBTAIN ASSISTANCE FROM EUROPE IN THE POST-1979 PERIOD HAS BEEN ITS "DIALOGUE" WITH ITALY AND FRANCE AS GUARANTORS OF MALTESE NEUTRALITY. FRANCE APPEARS RELUCTANT TO PROVIDE ANY FINANCIAL ASSISTANCE, ESPECIALLY AS BUDGET SUPPORT. THE GERMANS HAVE MORE RECENTLY BEEN APPROACHED FOR ASSISTANCE BUT HAVE REPORTEDLY TOLD THE MALTESE THAT BUDGET SUPPORT WAS NOT A FEASIBLE FORM OF ASSISTANCE. WE KNOW OF NO OTHER NATO COUNTRIES SERIOUSLY CONSIDERING ANY POST-1979 AID TO MALTA, ALTHOUGH THE EUROPEAN COMMUNITY HAS STATED THAT IT WOULD BE WILLING TO CONSIDER FURTHER FINANCIAL ASSISTANCE TO

MALTA AFTER 1981 (THAT IS WHEN THE EIB \$30
MILLION PACKAGE SIGNED IN 1975 TO COVER THE
1976-81 PERIOD EXPIRES).

G.) MALTESE IS MORE COMMON USAGE THAN MALTAN.

10. EMBASSY RECOMMENDATIONS: THE EMBASSY SHARES
EUR/WE'S VIEW THAT AN UP-TO-DATE STUDY OF MALTA'S
ECONOMIC SITUATION AND FUTURE PROSPECTS WOULD BE HIGHLY
USEFUL NOT ONLY IN WASHINGTON BUT ALSO IN SELECTED POSTS
IN WESTERN EUROPE. WE, THEREFORE, RECOMMEND THAT THESE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 VALLET 01051 03 OF 03 250904Z

COMMENTS, SOME OF OUR RECENT REPORTING (SUCH AS REF A),
AND GOM ECONOMIC DATA FOR 1977, BE INCORPORATED IN AN
UPDATED VERSION OF INR'S STUDY. IN ADDITION WE BELIEVE
THAT THE STUDY WOULD BE STRENGTHENED BY THE INCLUSION
OF CERTAIN POLICY IMPLICATIONS FLOWING FROM THE ANALYSIS,
SUCH AS THOSE CONTAINED IN PARA NINE ABOVE. AS DIS-
CUSSIONS BETWEEN THE GOM AND ITALY ON ECONOMIC ASSIS-
TANCE MAY START IN EARLY MAY, WE SUGGEST THAT AN UPDATED
VERSION BE COMPLETED AS SOON AS POSSIBLE BUT NO LATER
THAN MID-MAY. LAINGEN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY BASES, CLOSURE OF OFFICES, STUDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978VALLET01051
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780176-0046
Format: TEL
From: VALLETTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780418/aaaaaool.tel
Line Count: 359
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2e5dbca7-c288-dd11-92da-001cc4696bcc
Office: ACTION INR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 VALLETTA 435, 77 VALLETTA 1398
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2850301
Secure: OPEN
Status: NATIVE
Subject: POST COMMENTS ON INR STUDY ("MALTA'S ECONOMIC - PROSPECTS")
TAGS: ECON, EAID, PINT, MARR, MT, NATO
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/2e5dbca7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014